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IN THE
# Supreme Court of the United States
OCTOBER TERM, 1993

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FILMTEC CORPORATION,
*Petitioner,*

v.

HYDRANAUTICS,
*Respondent.*

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**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit**

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## REPLY BRIEF FOR PETITIONER

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Respondent makes no real effort to defend the decision below on the merits or, more importantly, to explain how the court's rationale can be squared with the broader structure of the patent system. Instead, it seeks refuge in the claim that the Federal Circuit's ruling is limited to a specific context. But that simply is not true. The Federal Circuit has now held that legal title to an invention may be conveyed by a contract signed before that invention even exists, and that the validity of the title held by the recipient of a subsequently issued patent can be challenged by any alleged infringer. In so ruling, the

court ignored the plain terms of the patent statutes, which grant the exclusive power to sue infringers to the original "patentee" or his successors in interest. 35 U.S.C. §§ 100(d), 281. Indeed, from the very beginning of the patent system, *see Gayler v. Wilder*, 51 U.S. (10 How.) 477, 493 (1850), this Court has upheld as unassailable the title resulting from a properly recorded assignment.

The Federal Circuit's departure from this principle is not limited to a particular contract, to a particular statutory scheme, or even to cases involving government-funded research. The court's new rule will apply not only to cases covered by FNERDA (although that is itself a substantial number of cases) but also to *any* contract in which an inventor transfers rights to future inventions using language similar to that used in FNERDA. Moreover, since neither the Federal Circuit nor respondent has even attempted to come to grips with the serious practical problems created by such a system, a plea for deference to the specialized expertise of the court of appeals in this instance rings hollow.

1. Respondent begins its effort to cabin the potential impact of the decision below by contending that it turned on the special provisions of the now-repealed Saline Water Conversion Act. Br. in Opp. 5-8. In fact, however, the primary holding of the court of appeals involved the significance of the "vesting" language in a different statute, FNERDA, which had been incorporated into the Saline Water Conversion Act in 1976 as the provision that controlled title to inventions.[1] As the court below put it:

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[1] Section 3 of Pub. L. No. 94-316, 90 Stat. 694 (1976), provided that "[r]elative to the definition of, title to, and licensing of inventions made or conceived in the course of or under contract or grant pursuant to . . . the Saline Water Conversion Act of 1971 . . ., and notwithstanding any other provision of law, the Secretary shall be governed by the provisions of sections 9 and 10 of [FNERDA] . . . ."

> Section 9(a) of the FNERDA clearly provides that title to any invention made or conceived under a FNERDA contract "shall vest" in the United States. There is no doubt that Cadotte's MRI work was funded by a contract subject to Section 9(a) of the FNERDA. Thus we only need to decide whether the invention of the '344 patent was made or conceived while Cadotte was at MRI . . . .

Pet. App. 8a. The court thus plainly held that language "vesting" rights to future inventions, in a contract or in a statute governing a contract, may effect a present transfer of legal title to such inventions and thus create a defense available in any infringement action brought by a subsequent patentee of the invention.

The brief in opposition does not attempt to explain how this ruling makes any sense in light of the basic features of the patent system designed by Congress. Until now, this system was built on the recognition of a need for certainty about who has the current right to enforce a patent. That right rested with the current holder of legal title to the patent—defined as the recipient of the original patent or the recipient of a subsequent assignment of that patent. 35 U.S.C. §§ 100(d), 281. Any such assignment, in turn, was routinely recorded with the Patent and Trademark Office, because it was otherwise subject to nullification by a later assignment to a good-faith purchaser. *Id.* § 261. Pre-existing contractually based rights to inventions created only "equitable" interests, which did not by themselves entail the right to sue infringers and did not provide a defense when an infringer was sued by the patentee. This entire structure is fatally undercut by a ruling that a prior contract may effect an automatic transfer of legal title, thereby rendering a subsequent patent a nullity and creating a defense for any infringer sued by the patentee.

It is no answer for respondent to cite cases in which infringement defendants successfully argued that the

plaintiffs had received only licenses, rather than assignments, and thus had no right to enforce the patents at issue. *See* Br. in Opp. at 11 (citing *Waterman v. Mackenzie*, 138 U.S. 252 (1891), *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24 (1923), and *Gayler v. Wilder*, 51 U.S. (10 How.) 477 (1850)). Such rulings reflect the patent system's insistence on clarity and formality in transfers of legal title and of the concomitant right to sue infringers. Here, by contrast, there was no doubt about the formal validity of the assignment of title received by FilmTec. In such circumstances, nearly a century of uniform case law holds that the infringement defendant may *not* question the plaintiff's title. *See* Pet. 8. But the Federal Circuit held, for the first time in the history of the patent system and in the face of the plain terms of the patent statutes, that the defendant could question the assignee's title if some prior contract binding the inventor purported to transfer title to the future inventions.[2]

Instead of justifying this holding, respondent argues that it will affect only cases governed by FNERDA and is therefore of relatively little significance. Br. in Opp. at 8-9. In reality, however, if the language used in FNERDA and the MRI contract effected an automatic vesting of legal title to future inventions, then many other contracts have done so and will do so in the future.[3] Once it is recognized that legal title to an invention may be transferred in advance, the clarity and predictability of the patent system is called into question in a fundamental way.

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[2] The Federal Circuit's disregard of settled case law is illustrative of the problems created by that court's determination that it is not bound even by uniform rulings issued by the regional courts of appeals prior to its creation. *See South Corp. v. United States*, 690 F.2d 1368, 1371 (Fed. Cir. 1982).

[3] For this reason, it makes little sense to engage in a debate about the extent to which FNERDA continues to govern title to inventions created with government funds. *See* Br. in Opp. at 9.

2. As respondent points out, the Federal Circuit did indicate that there was alternative basis, not suggested by any party, for its decision to allow Hydranautics to assert the Government's title as a defense in the infringement action brought by FilmTec. It held, without citation of authority, that language in the Saline Water Conversion Act calling for inventions to be "available to the general public," Pub. L. No. 92-60, § 6(d), 85 Stat. 159, 161 (1971), made respondent a "third party beneficiary" of the government research contract who should be allowed to enforce it. Pet. App. 8a-9a. But this separate theory in no way undercuts the significance of the court's more general holding about the effect of contractual language that purports to "vest" rights to future inventions.

In any event, this theory is entirely specious: any rights of the "general public" were extinguished when the Act was amended so as to bring it within the constraints of FNERDA, which grants the Government the discretion to hold the patent to an invention or to grant exclusive rights to any party. *See* Pub. L. No. 94-316, § 3, 90 Stat. 694 (1976) (incorporating FNERDA); 42 U.S.C. § 5908. As the court of appeals acknowledged, the "availability of inventions made under the Contract is subject to the authority of the Administrator, pursuant to section 9 of the FNERDA, to waive title to a subject invention or grant an exclusive or partially exclusive license to such an invention . . . ." Pet. App. 9a n.4. Thus, when Hydranautics willfully infringed the patent issued to FilmTec, it hardly had any basis for claiming a right to use the invention—even assuming that the invention was created under the aegis of the government contract.

3. The petition described the obvious and severe practical problems created by a rule that allows an infringement defendant to challenge the title of the patentee/plaintiff based on the inventor's prior contractual agree-

ment to transfer rights to his future inventions to some third party. These concerns remain unanswered.

As we have noted, under the Federal Circuit's new rule, it will not be clear in many cases who—the patentee or the holder of the contract-based rights to the invention—has a sufficiently "clean" title to sue the infringer. As a result, some infringement actions may not be brought at all. Moreover, when they are brought, the need to resolve the title issue as a prelude to reaching the merits of the infringement claim will greatly increase the complexity of the case. The relevant facts, after all, are entirely unrelated to the issue of infringement, and will seldom be clear or simple. And the court will have to face thorny questions about whether the other potential title holder must be brought into the case as a party before the title issue can be resolved. In sum, the only party likely to benefit from the new system created by the court of appeals is an infringer who has no right to the invention under any theory.

In the face of these concerns, respondent asks this Court to accept the Federal Circuit's decision on faith—*i.e.*, on the assumption that the judges of this specialized court must have some answer to these practical concerns that they did not express (and that respondent has not supplied). It is, of course, true that the centralization of patent cases was intended to allow one intermediate court to resolve many patent issues. But that very centralization also creates a need for continued supervision by the only court that can correct errors—the Supreme Court. It is going too far, we submit, to suggest that a patent ruling of the Federal Circuit should not be reviewed when (1) it ignores the language of the patent statutes and nearly a century of settled case law, (2) it appears on its face to disrupt, rather than promote, the smooth and fair operation of the patent system, and (3) the court of appeals has offered a plainly insufficient explanation of its decision. This is such a case.

Respectfully submitted.

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